Fifty-third Annual Report

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

FOR THE YEAR ENDED
DECEMBER 31, 1963

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FIFTY-THIRD ANNUAL REPORT

New York, April 20, 1964

To the Stockholders of

CAROLINA, CLINCHFIELD AND OHIO RAILWAY:

The Fifty-third Annual Report of the Board of Directors, for the year ended December 31, 1963, is submitted herewith:

Under an indenture dated October 16, 1924 the properties of Carolina, Clinchfield and Ohio Railway and its subsidiaries were leased to Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company for a period of 999 years from May 11, 1923 at an annual money rental which now and during the remainder of the term of the Lease is 5% on $25,000,000 Capital Stock, or $1,250,000 annually.

In addition to the foregoing money rental, the Lessees agree to pay the interest charges on the outstanding funded debt of and guaranteed by Carolina, Clinchfield and Ohio Railway and on any bonds that may be issued to refund the same.

The Lease also provides that the Lessees shall pay all charges and other expenses in connection with the payment of interest, shall pay all taxes upon the franchises and leased property and the income thereof, and shall also pay a limited sum for the annual corporate expenses of the Lessors. All rental payments under the Lease are the joint and several obligations of Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company.

The Lease expressly provides that, in case of the issuance of any additional capital stock of the Railway, it shall be stock of a class which has no right to participate in any dividends declared from the money rental above mentioned, which money rental has been fixed at the amount specified for the purpose of enabling the Railway to pay dividends upon the $25,000,000 par value Capital Stock at the rate of five per cent. per annum, and is not intended to be used for any other purpose whatsoever. In consideration of

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

BOARD OF DIRECTORS

G. H. Brewer	New York, N. Y.
A. D. Early	New York, N. Y.
W. B. Franke	Rutland, Vermont
F. E. Hanson	New York, N. Y.
W. J. McDonald	New York, N. Y.
Floyd T. Starr	Philadelphia, Pa.
H. Everett Woodruff	New York, N. Y.

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OFFICERS

F. E. Hanson	*Vice President, Treasurer and Ass't Sec'y*
A. D. Early	*Secretary*
Laurette R. Heller	*Ass't Sec'y and Ass't Treasurer*
E. E. Woodruff	*Ass't Sec'y and Ass't Treasurer*

New York Office ..... 115 Broadway

Stock Transfer Agent
and
Dividend Disbursing Agent
Chemical Bank New York Trust Company
20 Pine Street
New York 15, New York

Stock Registrar
Bankers Trust Company
16 Wall Street
New York 15, New York

this money rental, the stockholder agrees with the Lessees that he will vote his stock in such manner as is necessary to carry out certain provisions of the Lease from time to time.

The payment of the above-mentioned annual money rental is to be made in equal quarterly instalments, on the first day of January, April, July and October of each year, to enable the Lessor to pay dividends upon its $25,000,000 Capital Stock at the rate specified.

The making of the aforesaid Lease was authorized by the Interstate Commerce Commission on June 3, 1924 (Finance Docket No. 3131).

Possession of the leased properties was delivered to the Lessees on December 1, 1924 and the first payment of the money rental under the Lease was made to the Lessors on April 1, 1925.

Quarterly dividends, at the rate of five per cent. per annum on the Railway's $25,000,000 Capital Stock, were paid out of the money rental received from the Lessees during 1963.

The Corporation is the owner of the First Mortgage Bonds of its subsidiary, Carolina, Clinchfield and Ohio Railway of South Carolina, in the principal amount of $3,000,000. All of these bonds are pledged and deposited as security under the Corporation's own First Mortgage. The maturity date of these bonds is September 1, 1965 which coincides with the maturity date of the bonds of this Corporation presently outstanding under its First Mortgage.

Submitted as a part of this report are a summary of the operation of the leased properties, a copy of the consolidated general balance sheet, a consolidated statement of income and earned surplus, a statement of mileage and a summary description of the funded debt.

We record with sorrow the death of H. R. Dennis on October 12, 1963. Mr. Dennis had served as President of the Corporation since 1947.

For the Board of Directors,

F. E. HANSON, *Vice President.*

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ASSETS

Current Assets:		
Cash	$ 2,848.14	
Special deposits	3,300.00	
Rent receivable	312,500.00	$ 318,648.14
Investments:		
Road and equipment property (See Footnote):		
Road	$44,069,189.42*	
Equipment	843,293.81*	
General expenditures	3,599,458.60*	
Other property accounts	18,256,672.21*	
Investment in transportation property	$66,768,614.04	
Accrued depreciation	64,532.49	
Investment in transportation property less depreciation	$66,704,081.55	
Sinking fund	430.00	
Miscellaneous physical property	62,563.22	
Total investment less recorded depreciation		66,767,074.77
Deferred assets:		
Working fund	$ 100.00	
Other deferred assets	1,862,092.99	1,862,192.99
TOTAL ASSETS		$68,947,915.90

FOOTNOTE

The accounts indicated by an asterisk have been restated to record the distribution of certain amounts carried in road and equipment property accounts to the corresponding primary road and equipment accounts, as required by Interstate Commerce Commission Order No. 32153, dated April 17, 1963.

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RAL BALANCE SHEET

R 31, 1963

LIABILITIES

Current Liabilities:		
Interest matured unpaid	$ 120.00	
Unmatured dividends declared	312,500.00	
First Mortgage Bonds and premiums called for redemption	117,180.00	$ 429,800.00
Deferred liabilities		9,636,676.33
Funded debt unmatured:		
First Mortgage 4% Bonds, Series A:		
Issued	$22,150,000.00	
Retired	5,047,000.00	17,103,000.00
Capital stock		25,000,000.00
Surplus:		
Unearned surplus	$16,875,000.00	
Earned surplus (deficit)	(96,560.43)	16,778,439.57
TOTAL LIABILITIES		$68,947,915.90

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

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CAROLINA, CLINCHFIELD AND OHIO RAILWAY OF SOUTH CAROLINA

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1963

Income:		
Income from lease of road and equipment	$1,964,678.04	
Release of premium on funded debt	638.07	
Miscellaneous income	351.48	
Total income for year		$1,965,667.59
Deductions from income:		
Maintenance of corporate organization	$ 25,007.25	
Interest on bonds	690,003.24	
Amortization of discount on funded debt	343.94	
Miscellaneous debits	1,480.47	716,834.90
Net income for year		$1,248,832.69
Earned surplus (deficit), January 1, 1963		(95,393.12)
		$1,153,439.57
Less—Dividends paid ($5.00 per share)		1,250,000.00
Earned surplus (deficit)		$ (96,560.43)

The Lessees of the Companies' properties, in accordance with the provisions of the Lease, have paid all taxes due or assessed against the rental income therefrom.

RESULTS OF OPERATIONS BY LESSEES

The following is a summary of the operation of the leased properties for the year ended December 31, 1963, as reported by the Lessees:

Railway operating revenues		$22,381,074.21
Railway operating expenses		13,141,909.28
Net revenue from railway operation		$ 9,239,164.93
Railway tax accruals		2,491,746.68
Railway operating income		$ 6,747,418.25
Equipment rents	$529,632.92	
Joint facility rents	153,056.92	376,576.00
Net operating revenue		$ 7,123,994.25
Non-operating income		60,580.41
Gross income		$ 7,184,574.66
Total fixed charges		2,428,100.41
Net income to Lessees		$ 4,756,474.25

MILEAGE

The mileage owned by Carolina, Clinchfield and Ohio Railway and its subsidiary, Carolina, Clinchfield and Ohio Railway of South Carolina, is as follows:

	Miles
Carolina, Clinchfield and Ohio Railway:	
Main line: Elkhorn City, Ky., to N.C.-S.C. state line	258.76
Branch lines: Canay, Va., to Moss, Va.	14.55
Bostic Yard, N. C., to Junction S. A. L. Railroad	.79
Carolina, Clinchfield and Ohio Railway of South Carolina:	
Main line: N.C.-S.C. state line to Spartanburg, S. C.	18.09
Total	292.19

The lines of this Company have, since December 1, 1924, been operated by the Lessees under the name of "Clinchfield Railroad Company".

In addition to the foregoing mileage, the Lessees also operate the following mileage under trackage rights held by Carolina, Clinchfield and Ohio Railway System:

Chesapeake and Ohio Railway, Elkhorn City, Ky.	.13
Southern Railway, Frisco Yard, Tenn.	.61
Total	.74

This makes the total mileage operated by the Lessees, under the lease, 292.93 miles.

SUMMARY DESCRIPTION OF FUNDED DEBT
DECEMBER 31, 1963

CAROLINA, CLINCHFIELD AND OHIO RAILWAY
FIRST MORTGAGE 4% BONDS, SERIES A:

Dated September 1, 1940, due September 1, 1965, secured by first mortgage on the line of railway and other property from Elkhorn City, Kentucky, to the North Carolina, South Carolina state line, 276 miles, by equipment, and by the entire capital stock ($12,000) and $3,000,000 principal amount (entire issue) of First Mortgage Bonds of Carolina, Clinchfield and Ohio Railway of South Carolina, extended to September 1, 1965. Amount authorized and issued, $22,150,000; retired through sinking fund, $5,047,000; outstanding $17,103,000. Bonds unconditionally guaranteed as to principal, interest and sinking fund payments jointly and severally by endorsement by Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company. Successor Trustee: Morgan Guaranty Trust Company of New York. Coupon bonds in denomination of $1,000 each, registrable as to principal only. Fully registered bonds, without coupons, in denominations of $1,000, $5,000, $10,000, $100,000 and any multiple of $100,000 authorized by the Board of Directors. Coupon bonds and registered bonds without coupons are interchangeable. Interest payable March 1 and September 1 at Morgan Guaranty Trust Company of New York, 23 Wall Street, New York 15, N. Y. Redeemable, as a whole or in part, after not less than 45 days' published notice, on any date, at 100% of the principal sum, plus accrued interest. Semi-annual non-cumulative sinking fund of $110,750 to be applied to the purchase or redemption of bonds.